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APPROVAL OF UNDP ASSISTANCE TO A PROJECT OF CHINA

IPF:(1992-96) $176 600 000
(CPR/91/522) - Strengthening Macroeconomic Planning and Regulation

Date of approval by the AC:[1]	7 October 1992
Expected duration:	Three years
Proposed executing agency:	Government (China International Center for Economic and Technical Exchanges (CICETE))
Government implementing agency:	State Planning Commission (SPC)
Proposed UNDP contribution:	$1 650 000 Source of funds: IPF
Total UNDP budget:	$1 650 000

Project background

China first initiated comprehensive planning in 1953 following the Soviet model whereby all key parameters of the economy were controlled by central administrative command. Systemic defects inherent in a command system and low productivity have led to several attempts at administrative decentralization. However, as they did not fundamentally alter the nature of command system, the result was economic chaos and consequent reversion to centralization. Economic performance was characterized by sharp fluctuations in growth rates, structural and sectoral imbalances and declining economic efficiency. Although the command system could periodically deliver high growth rates, growth was largely of an extensive character - factor-augmented growth based on huge additions of human, material and financial resources rather than of an intensive character based on increased efficiency of investment and higher productivity.

To break through the impasse of previous administrative decentralization-recentralization cycles, the Government of China undertook, in late 1978, a bold new course agents of action by introducing market-oriented decentralization which stressed a more consumption-oriented production structure, and which was based on intensive growth deriving from increased economic efficiency.

China has, so far, implemented its economic reform programme under the guiding principle of "planned commodity economy" in which the market mechanism plays an important resource allocation function within the framework of state determined objectives, direction and morphology of development. This hybrid plan-cum-market economic mechanism has shown certain unstable characteristics including overheating of the industrial economy, imbalances in both the real economy and in finances, and inflationary pressures. New methods and processes of planning, and indirect ways of controlling and regulating the economy are urgently needed to further deepen reform while maintaining macroeconomic stability. To this

[1] This Fact Sheet reflects the status of the project/revision at the time it was approved by the Action Committee; modifications to the project/revision may have occurred subsequently.

end the Government requested UNDP assistance under the present approval.

Description of project

The development objective of the project is to enhance the Government's effectiveness in conceptualizing, specifying and achieving the goals of economic policy by improving and updating the SPC's methods of plan formulation and implementation. The project will address three key issues of: (i) new framework for macroeconomic policy analysis; (ii) indirect instruments of macroeconomic regulation; and (iii) the optimal degree and scope of state intervention. These issues will be examined both at a macroeconomic level by focusing on two main areas of macroeconomic policy analysis and techniques of medium - and long-term planning, and at the disaggregated sectoral/regional level, by detailed studies in five key problem areas. These will include industrial policy, regional development policy, development of an efficient and integrated market, techniques of medium - and long-term planning, the international economic environment in the 1990s and human resources development. The main findings and policy recommendations of the project will be presented to the State Council in a General Report which will identify the goals of macroeconomic planning, define the role of SPC, and identify policy instruments. The General Report will be supported by six sub-sectoral reports on the problem areas identified.

In addition to the above, the project will also initiate work on the development of a computer-based policy simulation/forecasting model of the national economy, and the establishment of a statistical database and information system to support the model, based on the work already undertaken at SPC and the State Information Centre of SPC.

Inputs

UNDP will provide approximately 35 work-months of foreign expert services in various areas of macroeconomic management; 200 work-months research fellowships, group training and study tours; and equipment including microcomputers, peripherals, software, library materials and other related items.

Financial data

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Personnel	595 000
Training	950 000
Equipment	100 000
Miscellaneous	5 000
Total	1 650 000

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